

City of Cincinnati



November 10, 2004

Mayor Charlie Luken:

CITY MANAGER'S BUDGET MESSAGE

I am pleased to present my recommended 2005/2006 All Funds Biennial Budget for the City of Cincinnati. It includes the Operating Budget, Capital Budget, and the Consolidated Plan Budget. As required by state law, all funds are balanced.

ECONOMIC CLIMATE

This is a critical time for the City of Cincinnati. We are challenged to provide the valuable services that our citizens have come to expect because expenditures in the General Fund must be reduced by \$16.2 million to balance the budget. Consistent with the City Council's Policy Budget, my budget continues to fund basic City services such as police, fire, health clinics, trash collection, parks, recreation, street repair, water, and sewer. There are non-basic services that have been reduced or eliminated because of the lack of fiscal resources. My budget also continues to reduce City positions, particularly those who do not deliver direct services. Please beware that these staff reductions will nevertheless have an impact. The effects of these reductions are noted in the operating budget. Wage increases are also limited to 0% - 2% and employees are expected to share more of the cost of health care.

The City of Cincinnati is not alone in experiencing financial difficulty. While the national recession ended in late 2001, the recession for many cities has continued, according to the latest National League of Cities (NLC) annual survey. Like Cincinnati, most cities in the state and in the Rust Belt have faced expenditures increasing faster than revenues and reserves have been used to balance budgets.

Employee wages, health care, pension, public safety, and infrastructure are noted in the NLC survey as major cost drivers. These are the cost drivers in the Cincinnati budget as well. Also, cities that rely heavily on income tax have fared relatively worse than those cities relying more on the property or sales tax. For Cincinnati, income tax revenue actually declined in 2002 compared to 2001; grew at a modest 2.6% in 2003; and is expected to have only a slight increase of 1% in 2004. For the biennium, 2005 income tax revenue is expected to grow at 2.2% and 2006 income tax revenue is expected to grow by 3.4%. Cincinnati's income tax revenue provides 62% of the General Fund revenue and also provides significant funding for capital improvements, infrastructure maintenance and repair, and public transit.

According to the Federal Reserve Bank of Cleveland's October 2004 Economic Trends report (Fourth District¹), U.S. employment has not achieved its pre-recession peak. The district has fared worse than the U.S. in general and, of the district states, Ohio has fared worse by far than other states in the district. According to the Federal Reserve, Ohio usually recovers somewhat more slowly than the nation but during the current expansion the State's employment growth has lagged both its own typical experience

¹ Includes Ohio, western Pennsylvania, eastern Kentucky, and northern West Virginia.

and the nation's performance. Cincinnati's income tax performance reflects this relatively weak employment trend.

The 2005 Economic Outlook published in September 2004 by the Greater Cincinnati Chamber of Commerce expects Gross Regional Product (a regional indicator of economic activity) to increase by 3.8% in each of 2004 and 2005. Regional job growth is expected to be modest at 1% in 2004 and 1.5% in 2005. Although it is difficult to measure the economy just within the City of Cincinnati, modest regional economic growth and slight regional employment growth suggest that future revenue increases will not solve the City's budget problem, barring tax increases. A sustainable financial future under the current tax structure will require bold action to control costs in the 2005/2006 Biennial Budget. Revenues and expenditures must be aligned. Such bold action is recommended in my budget. This means, as a city government, we need to focus on basic, core services and more efficiently leverage other local, state, and federal resources with our community partners — we can't do it all. It also means that we must demand greater accountability from City departments and agencies that receive City funding to be assured that we get the highest return for our fiscal investment. The return must include a positive, profound difference in the quality of life for those who live, work, and visit our great City.

ACCOMPLISHMENTS

In spite of the City's fiscal condition, there have been many accomplishments in the 2003/2004 biennium that bode well for the City's future. Many of these will help sustain our neighborhoods, the downtown, and promote business development. All of these required the City investment of time, effort, and/or financial resources. When market forces improve and the economy picks up, we will be well positioned to take advantage of it.

- Neighborhood Initiatives
 - ✓ Over 100 lane miles of City streets rehabilitated citywide;
 - ✓ \$100 million Cincinnati Housing Loan Fund implemented citywide;
 - ✓ Eleven tax incentive districts created;
 - ✓ City West with 1,200 mixed income housing units under construction within the West End;
 - ✓ Residences at Riverfront Phase I in the East End with 28 condos complete;
 - ✓ Twain's Point at Adams Landing in the East End with 26 townhomes being constructed;
 - ✓ Calhoun Market Place Redevelopment Project under construction in Clifton Heights;
 - ✓ CiTiRAMA 2003 opened with 249 single-family homes in Westwood planned;
 - ✓ DeSales Plaza completed with 45 upscale rental units and commercial space in East Walnut Hills;
 - ✓ Centennial Station Apartment Homes completed adding 300 upscale rental units in Madisonville;
 - ✓ Theodore M. Berry International Friendship Park opened in the East End;
 - ✓ 660 Lincoln office and garage project begun in Walnut Hills;
 - ✓ Queen City Avenue realignment under construction;
 - ✓ Paddock Road/I-75 overpass completed;
 - ✓ Hyde Park, Evanston, and Mt. Washington Streetscapes completed;
 - ✓ Villages of Daybreak with 300 housing units begun in Bond Hill;
 - ✓ Avondale Pride Center established;
 - ✓ Approval of Neighborhood Revitalization Strategy Areas by HUD in Walnut Hills & College Hill);
 - ✓ Corryville/University Village Urban Renewal Plan completed;
 - ✓ Pleasant Ridge, College Hill, O'Bryonville Streetscapes completed;
 - ✓ Alexandria senior housing project in Walnut Hills completed;
 - ✓ Schoolhouse Lofts with 31 condos under construction in East Walnut Hills;
 - ✓ Sonoma Hill with 32 single-family homes under construction in Madisonville;

- ✓ McHenry House offering 44 affordable elderly rental units under construction in East Westwood;
 - ✓ Butterfield Place with 16 single-family homes under construction in Madisonville;
 - ✓ Mills of Carthage Phase 2 with 28 single-family homes under construction;
 - ✓ Brodbeck Park Subdivision 65 homes under construction in Westwood;
 - ✓ Community Response Team (Code Enforcement Strike Force) established;
 - ✓ Small Business Strikeforce groundwork being completed for implementation next year.
 - ✓ Grand Avenue Commons (planned 25 single-family and townhomes) infrastructure near completion in East Price Hill;
- Downtown Initiatives
 - ✓ Contemporary Arts Center opened;
 - ✓ Taft Museum renovation completed;
 - ✓ National Underground Railroad Freedom Center opened;
 - ✓ Great American Ballpark opened;
 - ✓ Riverfront Transit Center opened;
 - ✓ Queen City Square office and garage project begun;
 - ✓ Vine and Central Parkway Garage begun;
 - ✓ Vine and Central Parkway Condos approved;
 - ✓ Fourth and Race condo project approved;
 - ✓ Power Building with 117 market rate rental units completed;
 - ✓ Park Place at Lytle (Polk building condo conversion) begun.
 - Business Development
 - ✓ Cincinnati Center City Development Corporation (3CDC) formed, funded, and operational at the request of the Mayor and City Manager;
 - ✓ One-Stop Permit and Development Center opened;
 - ✓ Economic Development Division organized in the City Manager's Office;
 - ✓ Fifth-Third Bank Madisonville Center expansion continues;
 - ✓ Findlay Market Phases I, II, and III completed;
 - ✓ Corporation for Findlay Market management operations begun;
 - ✓ Convergys job retention/job creation agreement approved;
 - ✓ Cinergy Center renovation and expansion begun;
 - ✓ Developed system of service providers for technical assistance to small business;
 - ✓ Creation of the Grow Cincinnati Loan Fund for small business;
 - ✓ 429 Small Business Enterprises (SBE's) certified under the enhanced SBE program;
 - ✓ Funding provided for the Port of Greater Cincinnati Development Authority;
 - ✓ Clean Ohio Fund for Queensgate South, \$3 million in funding secured;
 - ✓ LabOne job retention/job creation agreement approved;
 - ✓ Amantea job creation agreement approved;
 - ✓ Duramed job retention /job creation agreement approved.

ACTION ITEMS

As part of the 2003/2004 biennial budget development process, the Mayor and City Council gave me a list of 53 Action Items to accomplish in the biennium. Of these items, 43 have been completed or are no longer applicable and 10 are pending. Major completed items include: continuing the nature education and health education programs, increasing the number of police officers, hiring a chief planner, hiring an economic development director, establishing an arts capital improvement program, and establishing

neighborhood revitalization strategy areas. A summary list is provided at the end of this budget message in Appendix A. A detailed status report on the 2003/2004 Action Items is included as an appendix to the Recommended 2005/2006 Operating Budget document.

ACCOUNTABILITY

One of the Action Items was to develop Department Business Plans and Performance Contracts. These have been completed and I intend to use them not only as citywide service delivery indicators but also to hold city executives accountable for delivering services. Each department director reporting to the City Manager is required to sign a performance contract on which performance evaluations are based. These will be provided in a separate transmittal. Appendix B provides the 2004 Executive Performance Contracts.

BUDGET POLICY

On June 30, 2004, the City Council approved the Policy Budget for the 2005/2006 Biennial Budget. The Policy Budget is a set of City Council recommendations for inclusion in the budget. For the most part, I have been able to include these recommendations, especially as they pertain to core city services. The following is a listing of each item and its status in the 2005/2006 Biennial Budget.

1. *Keep Council's commitment to complete the increase of 75 police officers to the complement.*

The Recommended 2005/2006 General Fund Budget includes funding for two recruit classes in 2005 and 2006 as well as an increase of 15.0 FTE in authorized police officers from 1,060 to 1,075. Barring any unusual attrition patterns, the Police Department will reach the 1,075 officer level in late 2005.

2. *Protect basic services from any service cuts, defined as safety, fire, garbage collection, road repair and pavement, maintenance of green spaces, health care centers, and recycling.*

Basic services are funded in the Recommended 2005/2006 Operating Budget. The number of police officers increases and fire staffing remains unchanged. Garbage collection is funded at continuation levels and all the health clinics remain open with current service hours. Greenspace maintenance and recycling will be provided in 2005/2006 but due to limited resources the greenspace program within the Public Services Department and Park Board are funded only at 72% of the 2004 funding level. Additionally, the curbside recycling program is funded in 2005/2006 but the collection frequency is decreased from weekly collection to every other week. We will continue to annually rehabilitate 100 lane miles of City streets.

3. *Balance the budget by cutting waste, improving efficiency, cutting services not normally provided by cities, and if necessary, reducing middle and upper management.*

The Recommended 2005/2006 Operating Budget reflects an all funds reduction of 161.1 FTE for 2005 and 17.0 FTE in 2006, including a number of management positions. While focusing resources on basic core services there are significant reductions within support agencies. For example, the Finance Department, Law Department, Human Resources Department recommended 2005 General Fund budgets decrease 9.0%, 8.6%, and 9.8%, respectively. The Office of the City Manager, Office of the Mayor, and the City Council budgets each decrease 15.5% from the 2004 approved funding level. In many instances we will rely more on community expertise to provide services rather than City staff – e.g., loan underwriting. City staff can then focus on performance, accountability, and regulatory functions. Also,

the Human Services Policy funding has been eliminated because the programs funded are not basic core City services.

4. Equip each firehouse used by the Cincinnati Fire Department with female restroom facilities.

To date, the City has added female facilities for 15 of the City's 26 firehouses. The "City Facility Renovation" project within the Recommended 2005/2006 Capital Budget includes the addition of female facilities for two firehouses over the biennium and upgrading the female facilities at one firehouse in 2006. Upgrading the female facilities at another firehouse is planned for 2007. The remaining seven firehouses without female facilities would be included in the "Replacement Facilities" project as new firehouses are constructed.

5. Provide adequate resources to support long-term solutions to the challenges faced by the Fire Department – as outlined by the Line of Duty Death report (LODD), as well as the challenges faced by the EMS system.

The Recommended 2005/2006 Capital Budget includes \$300,000 annually from 2005 through 2010 for the acquisition of fire equipment to address the recommendations in LODD report. Additionally, the City is in the process of reviewing the vendor proposals to perform a comprehensive review of the Fire Department as approved by the City Council.

6. Continue to support Community Councils and Neighborhood Business Districts through the Neighborhood Support Program (NSP) Fund and Neighborhood Business District Support Fund (NBDSF).

During the 2004 Budget Update process the annual support to Community Councils was increased from \$10,000 to \$12,000. The Recommended 2005/2006 Operating Budget includes an annual amount of \$5,000. This funding level represents a decrease of \$7,000 from the 2004 approved budget and a decrease of \$5,000 from the 2003 approved budget. The Recommended 2005/2006 Capital Budget includes funding to continue the \$10,000 annual contribution for each neighborhood business district for capital improvements.

7. Reinitiate its prior policy of capital transfers to provide capital investment in neighborhoods – both residential and business districts.

Due to limited resources within the General Fund, no capital transfers are in the Recommended 2005/2006 General Fund budget.

8. Continue to utilize the system of Community Priority Requests so each community can proactively outline its priorities for the coming budget season.

Department of Community Development and Planning (DCDP) coordinated the 2005 Community Priority Requests. City departments have been provided the requests and have incorporated community priorities, based on available resources. A disposition report by the Department of Community Development and Planning will be provided separately.

9. Devote a significant asset, quantified in staff hours, to be focused on black-on-black crime initiatives, earmarking dollars from the \$4.5 million the City currently spends on social programs.

The Recommended 2005/2006 Operating Budget does not include any funding for the Human Services Policy. The Recommended 2005/2006 Consolidated Plan Budget includes \$1 million in each year for the

proposed Blueprint for Success program to provide vocational skills and job opportunities for ex-offenders. This program will be funded with Community Development Block Grant and HOME resources and is described in the Recommended 2005/2006 Consolidated Plan Budget. Blue for Success is collaboration between the City of Cincinnati and the Cincinnati-Hamilton County Community Action Agency (CCA). It is a two year demonstration program designed as an intensive intervention for at-risk youth and young adults including ex-offenders. Youth will receive marketable construction skills while working towards a GED or High School diploma. CAA will customize an individualized roadmap and timetable of what the program participant wants to achieve based on the varied classes offered by the CAA. The program projects a total of 30 graduates with two homes completed in 2005 and five in 2006.

10. Support the Economic Development "Strike Force" in the Manager's Office so it has enough capacity to get the job done.

The Recommended 2005/2006 General Fund Budget includes continuation funding for the Economic Development Division within the Office of the City Manager. Additionally, the Recommended 2005/2006 Capital Budget includes a number of economic development projects to assist in fulfilling the goals of the Strike Force report. These projects are listed beginning on page 90 of the Recommended 2005/2006 Capital Budget.

11. Work with CPS to ensure that the necessary infrastructure, technical support, and public improvements for the Facilities Master Plan are developed and that future City planning efforts take into consideration the recognition of Community Learning Centers as a great asset to both individual neighborhoods and the City as a whole.

The Recreation Department has been assigned the coordinating responsibility for this initiative and serves as the City's liaison with CPS. The City is also working with Cincinnati State and CPS for the purpose of developing future qualified candidates for careers in public safety. Cincinnati State and CPS are collaborating to develop a curriculum that exposes, educates, and prepares students for these positions. This will encourage diversity, help remove obstacles that hinder future City employment, and proactively secure future qualified candidates for careers in the area of public safety.

12. Contract with outside professionals, who work on a contingency fee basis, for an independent efficiency review of every City department, including independent boards and commissions whose budgets are approved by City Council.

Though not on a contingency fee basis, the Fire Department will undergo a comprehensive review during 2005. Additionally, the Innovative Service Solutions (ISS) initiative within the Office of the City Manager will continue to identify opportunities to improve service delivery and effectiveness. Recent efforts include the review of the parts inventory management function within the Fleet Services Division and the operation of the City's Town Center and Garfield garages. The City has contracted with TechSolve Inc. to assist in the implementation of the ISS program to reduce the cost and improve the quality of City services. In 2004, TechSolve completed an organizational analysis of the City, trained 40 staff facilitators on continuous improvement techniques, and designed the ISS Program. In 2005, TechSolve will continue to train facilitators and facilitate implementation of ISS. This includes redesigning and implementing new process improvements such as the Neighborhood Quality of Life Unified Code and coaching a Peer Review Team to integrate the new improvements throughout the City.

13. Continue to invest in comprehensive cost-saving technology that will enable the City to run more efficiently.

The Recommended 2005/2006 Capital Budget includes several projects that will enhance efficiency and effectiveness. These projects include the upgrade of the City's check writing equipment, purchasing and procurement software, and the replacement of \$5.8 million in obsolete vehicles. The Police Department will replace its 14-year old computer aided dispatch system and implement a records management system to replace its paper-based records system. The Police Department would also implement photo traffic enforcement during 2005 to address traffic and pedestrian safety problems at select intersections across the City. This technology allows a 24/7 presence at problem intersections while also freeing up officers for crime reduction activities. In 2004, the Police Department has begun implementation of an employee tracking system. This system will provide the Police Department real time data regarding employee risk management issues (e.g., on-duty injuries, vehicle pursuits, use of force, etc.) at the first line supervisor level. The system also provides electronic workflow management to identify patterns early and greatly speed the review of work products. Finally, the system will track employee training as well as citizen and supervisory feedback on employee performance.

Additionally, the Recommended 2006 Capital Budget includes the first phase of a multi-year effort to replace the City's traffic lights with liquid emitting diode (LED) technology which will dramatically reduce energy costs and increase the service life of traffic lights.

14. Pursue Internet reverse auctions and joint purchasing (with other jurisdictions), when appropriate.

The Finance Department, Purchasing Division, is actively examining this opportunity and will report back to the City Council in early 2005 with an implementation plan.

15. Invest more money toward employing youth during the summer months.

The Recommended 2005/2006 Operating and Consolidated Plan Budgets include a total of \$2.1 million for youth and young adult employment and employment training (General Fund and Consolidated Plan Budget resources), representing a 31.2% increase from the 2004 approved funding level of \$1.6 million. This increase is primarily attributable to the proposed \$1.0 million Blueprint for Success program in each year in 2005 and 2006 within the Consolidated Plan Budget. This program will provide paid vocational training for 18-30 year-old ex-offenders in the context of renovating low and moderate-income housing.

16. Maintain the property tax rollback policy.

The Recommended 2005/2006 General Fund Budget revenue estimate assumes the continuation of the City Council policy of rolling back property tax millage to maintain the 2001 level of property tax revenue.

17. Adopt a clear performance measurement system to apply to those agencies and nonprofits that apply for and receive money through our Human Services Policy and that those measures (both past performance and projected performance) be part of the budget that is presented to Council in the fall.

With the recommended elimination of Human Services Policy funding. This policy item does not apply in 2005/2006.

18. Honor the commitments it made to the empowerment zones in an October 8, 1998 letter from then City Manager, John Shirey, and report back to Council on progress and include answers to Councilmember Cole's Motion (Council Document #200307175) in time for the August 2004 meeting.

A report was submitted to the City Council on August 31, 2004 detailing \$79.3 million in expenditures in the empowerment zone from July 1, 2003 to June 30, 2004. Included in these expenditures were \$54.1 million in routine services (e.g., fire, police, recreation and health centers); \$18.3 million for non-routine services (e.g., Department of Community Development and Planning projects such as Findlay Market and Over-the-Rhine initiatives, human services operating support grants, and water main upgrades); \$4.7 million in grant funding to the Cincinnati Empowerment Corporation; and \$2.2 million in Cincinnati Housing Development Fund loans.

19. Provide Cincinnati Recreation Commission with sufficient funding in order to operate recreation centers and pools an additional three (3) hours per day in the empowerment zone communities during the summer months.

Due to limited resources, the hours at the recreation centers and pools remain at the City funded 2004 level. In 2004, the Recreation Department received a donation of \$20,000 from CSX Transportation Foundation to allow 11 centers to be opened on Saturdays from approximately 10 AM to 6 PM for two months.

20. Continue funding the next phase of the Regional Fire Training Center project, which includes site preparation and design.

The Recommended 2005/2006 Capital Budget includes \$900,000 to build a training burn building at the Regional Fire Training Center site. The current burn building was condemned some years ago and a replacement burn building is the most pressing training need of the Fire Department. Additional commitments to this training center should be contingent upon regional funding and corresponding business plan.

BUDGET ASSUMPTIONS

The following summary includes the major assumptions used in developing the Recommended 2005/2006 Budget.

1. Salary increases are limited to 2% in each year of the biennium for represented employees. Professional, technical, and managerial employees (including CODE) are budgeted for no general salary increase (0%) increase in 2005.
2. Merit increases are not funded, except for represented staff per union contract.
3. Non-local travel and training expenditures remain at the 2003 Approved Budget level. During the 2003/2004 budget process non-local travel and training expenditures were reduced by approximately \$600,000, or more than 50%, within the General Fund.
4. Overtime and compensatory time is still eliminated except for emergencies for non-represented staff.
5. Fuel costs will remain at the current levels and energy costs will increase approximately 10% in 2005. Increases above these levels will require departments to absorb them.
6. City costs for employee healthcare assume all City employees transition to the "80/20 Plan." Under the 80/20 Plan, the employee's share of the total cost of healthcare increases from approximately 14% to 25% depending on the healthcare usage of the employee. The total cost of care for employee healthcare is anticipated to increase 16% in 2005.

7. Two police recruit classes beginning in June and December 2005 are funded. One fire recruit class (beginning late December 2004) is funded in 2005.
8. The police and fire cadet programs are eliminated.
9. No Human Services Policy funding is budgeted in the biennium. This is a \$4.8 million budget reduction.
10. Curbside recycling is reduced from weekly collection to every other week for a savings of approximately \$315,000.
11. Snow removal and slippery street activities will be focused on major thoroughfares and the central business district. Residential streets will be addressed as resources permit and not with overtime. A small reserve will be maintained for emergencies.
12. Contributions to outside agencies for projects and programs are significantly reduced or eliminated. A list of these reductions is included in the Operating Budget.
13. No General Fund Capital transfer will occur due to the lack of fiscal resources.
14. No General Fund transfer for Cincinnati On the Move Fund 382 (e.g., no additional funding support of the Riverfront Classic or Convention Visitors Bureau Multicultural Tourism Marketing). The Cincinnati On the Move Fund 382 was established during the 2004 Budget Update process to provide a dedicated non-appropriated fund to support tourism and marketing. It was funded with a 2004 transfer from the General Fund in the amount of \$145,000 and the 2003 balance for the Riverfront Classic in the amount of \$63,000. These resources will remain in the fund until expended; however, no additional funding is added to the fund in 2005.
15. The Fire Department overtime budget increases \$332,000 but the department will be challenged to contain overtime expenditures under current negotiated sick time and comp time leave usage.
16. The Mayor, City Manager, and City Council funding level decreases 15.5% from the 2004 Approved Budget Update.
17. The Greenspace Program (within the Public Services and Parks departments) is funded at 72% of the 2004 funding level and the Weed & Litter Program is fully funded in 2005.

ALL FUNDS BUDGET

The following sections describe the Recommended 2005/2006 All Funds Budget. Each of the three components of the all funds budgets are highlighted (Operating Budget, Capital Budget, Consolidated Plan Budget).

Table I: 2005/2006 All Funds Recommended Budget

(\$ in Millions)	2004	2005	\$	%	2006	\$	%
	Approved Budget	Recommended Budget Update			Recommended Budget Update		
Operating Budget							
General Fund	\$330.1	\$324.3	(\$5.8)	-1.8%	\$327.0	\$2.7	0.8%
Restricted Funds	<u>\$460.4</u>	<u>\$443.3</u>	<u>(\$17.1)</u>	<u>-3.7%</u>	<u>\$426.6</u>	<u>(\$16.7)</u>	<u>-3.8%</u>
Subtotal Operating Budget	\$790.5	\$767.6	(\$22.9)	-2.9%	\$753.6	(\$14.0)	-1.8%
Capital Budget							
General Capital Budget	\$79.3	\$64.4	(\$14.9)	-18.8%	\$63.9	(\$0.5)	-0.8%
Restricted Funds Capital	\$160.7	\$114.2	(\$46.5)	-28.9%	\$143.4	\$29.2	25.6%
Special Revenue/Matching Capital	<u>\$18.9</u>	<u>\$14.9</u>	<u>(\$4.0)</u>	<u>-21.2%</u>	<u>\$18.2</u>	<u>\$3.3</u>	<u>22.1%</u>
Subtotal Capital Budget	\$258.9	\$193.5	(\$65.4)	-25.3%	\$225.5	\$32.0	16.5%
Consolidated Plan Budget	\$26.1	\$24.5	(\$1.6)	-6.1%	\$24.9	\$0.4	1.6%
Total Budget	<u>\$1,075.5</u>	<u>\$985.6</u>	<u>(\$89.9)</u>	<u>-8.4%</u>	<u>\$1,004.0</u>	<u>\$18.4</u>	<u>1.9%</u>

Operating Budget

The City's Operating Budget provides for the basic services of municipal government such as police and fire service, recreation, parks, health clinics, infrastructure maintenance and repair, and water and sewer services.

Table II: Recommended 2005/2006 Operating Budget

(\$ in Millions)	2004	2005	Change	2006	Change
	Approved Budget	Recommended Budget	From 2004	Recommended Budget	From 2005
General Fund	\$330.1	\$324.3	-1.8%	\$327.0	0.8%
Restricted Funds ¹	<u>\$460.4</u>	<u>\$443.3</u>	<u>-3.7%</u>	<u>\$426.6</u>	<u>-3.8%</u>
Total Operating Budget	\$790.5	\$767.6	-2.9%	\$753.6	-1.8%

1 Community Development Block Grant funding, which is reported in a separate budget document, is not included in the amounts cited above.

As shown in Table II, the recommended General Fund Operating Budget is \$324.3 million in 2005 and \$327.0 million in 2006. The 2005 General Fund reduction is a \$5.8 million, or 1.8%, from 2004 and the

2006 recommendation is a \$2.7 million, or 0.8%, increase from 2005. It is significant that the forecasted 2005 General Fund continuation budget (a budget to provide the same level of services in 2005 as in 2004 but to reflect anticipated inflationary increases and assumptions for wage increases), totaled \$340.5 million. Compared to this 2005 continuation budget amount, the Recommended 2005 General Fund budget reflects a decrease of \$16.2 million, or 4.8%. The 2005 Continuation Budget to the 2005 Recommended Budget comparison is shown in Table III. The General Fund reductions touch every department and focuses limited resources on the core services of the City.

Table III – General Fund 2005 Continuation Budget / 2005 Recommended Budget Comparison

<i>(\$ in Millions)</i>	2005 Continuation Budget	2005 Recommended Budget	% Change 2005 Cont. to 2005 Rec.
Public Safety Sub-Total	\$152.0	\$150.2	-1.2%
Non-Public Safety Sub-Total	\$106.5	\$93.2	-12.5%
Total Departmental Budgets	\$258.5	\$243.4	-5.8%
Employee Benefits Sub-Total	\$68.7	\$68.6	-0.1%
Non-Departmental Sub-Total	\$13.2	\$12.3	-6.8%
Total General Fund Operating Expenditures	\$340.4	\$324.3	-4.7%
General Fund Transfers-out	\$0.1	\$0.0	
Total Expenditures	\$340.5	\$324.3	-4.8%

While the All Funds Operating Budget is balanced for 2005, there are several funds that require close monitoring to ensure that expenditures remain within resources. These funds include the Convention Center Fund 103 and the appropriated restricted funds that receive their funding from the City income tax. Because the Cinergy Center renovation and expansion project will significantly reduce the number of events held at the center during 2005 and the first half of 2006, the basic expenditures to keep the facility operating (e.g., utilities and security) will have to be monitored closely. Event planners will continue to actively pursue smaller events during this period but pending their efforts revenues from these events cannot be accurately estimated at this time.

The primary restricted funds that are affected by the City's income tax include the Income Tax-Infrastructure Fund 302 and the Income Tax-Transit Fund 759. Fund 302 receives its revenue from the 0.1% income tax for infrastructure and is a primary source of fixed asset repair and maintenance for the City. To the extent that income tax revenues do not increase, less repair and maintenance can be performed. Similarly, the Income Tax-Transit Fund 759 receives revenue from the 0.3% income tax dedicated to transit operations in the City. To the extent that income tax revenues do not increase, less funding is available to support the Southwest Ohio Regional Transit Authority (SORTA) bus and para-transit services. SORTA is considering fare increases.

All funds are balanced to resources in 2006; however, assumed additional General Fund expenditure reductions will need to be specifically identified in the 2006 Budget Update process because reductions are made proportionally across departments in the 2006 budget. For the General Fund, additional expenditure reductions or revenue increases are required in the amount of \$5.2 million for 2006.

CORE SERVICES

Core City services are the focus of the operating budget. Some of the continued core services included in the budget are as follows:

- The City's Health Clinics and other primary health care programs are fully funded; however, because of changes in the federal Medicare reimbursement policy, the non-City funded portion of the Home Health Care skilled nursing program is reduced. The General Fund portion of this program is fully funded.
- The plan to increase police staffing from 1,060 to 1,075 officers by late 2005 is on track, with two recruit classes funded in both 2005 and 2006.
- All 40 fire companies within the City's 26 fire houses are funded; however, the department will be challenged to contain overtime expenditures if current year sick time and comptime leave usage continues into 2005.
- Weekly solid waste collection is funded at a continuation level in the biennium; however, due to limited resources, the curbside recycling program is reduced from weekly pick-up to every other week.
- The new Mt. Washington Recreation Center will open in the spring of 2005; however, due to limited resources and low utilization several recreation facilities will close in 2005. The facilities to close in 2005 include Butterfield and Ebersole recreation centers and the Boldface and Mt. Adams pools. These facilities were chosen based on utilization levels, proximity to other facilities, and the physical condition of the facility. Additionally, programs at Cincinnati Metropolitan Housing Authority (CMHA) Pinecrest facility will be transferred to other facilities.
- All park facilities will remain open and operating at continuation levels; however, due to limited resources mowing cycles will be extended, litter pick-up will be reduced, and the overall maintenance of park facilities will decrease.
- Continued regular hours for the Permit and Development Center and building and zoning code enforcement is fully funded. During 2005, the City will implement the Landlord Registration program. Additionally, the Buildings and Inspections Department will increase permit and inspection fees which in some instances have not been revised since the 1970s.
- The City Litter and Weed program is fully funded and the Greenspace Program is funded at approximately 72% of the 2004 funding level. The result of the decreased funding for the Greenspace Program will be extended mowing and maintenance cycles.
- The Arts Policy and Arts Consortium are included in the budget but with approximately a 50% reduction in funding.
- The commitment of \$5 million for 20 years to the Cincinnati Public Schools (CPS) for facility improvements will continue in the biennium. We will continue to work with CPS to align our budgeted capital improvements with the CPS facilities plan where possible. Support for CPS continues with School Nurses (\$2.6 million), School Resource Officers (\$724,258), and School Crossing Guards (\$844,429). Based on the need to increase police visibility, the Drug Abuse

Resistance Education (DARE) program is eliminated in 2005 with the associated officers returned to crime reduction initiatives.

- Resources are budgeted to continue to implement 200 lane miles of street rehabilitation in the biennium.

General Fund Multi-Year Forecast

The 2005/2006 Biennial Budget for the General Fund is recommended in the context of a multi-year financial forecast of resources and expenditures. The initial forecast presented to the City Council in June 2004 has been updated as of November 2004. Table IV shows the June forecast and Table V shows the November forecast. The revisions are based on: 1) new revenue estimates for the forecast period beginning in 2004 and new revenue enhancements beginning in 2005, and 2) budget balancing plan implementation for 2004 and recommended expenditure reductions for the forecast period beginning in 2005.

Table IV – June 2004 General Fund Forecast 2003-2008

(\$ in Thousands)	2003 Actual	2004 Estimate	2005 Forecast	2006 Forecast	2007 Forecast	2008 Forecast
Resources						
Operating Revenues	\$313,669	\$312,654	\$320,756	\$329,811	\$338,867	\$349,208
Transfers-in	5,963	1,000	3,059	-	-	-
Total Resources	<u>\$319,632</u>	<u>\$313,654</u>	<u>\$323,815</u>	<u>\$329,811</u>	<u>\$338,867</u>	<u>\$349,208</u>
Expenditures						
Operating Expenditures	\$314,692	\$330,113	\$340,334	\$352,085	\$363,428	\$373,219
Transfers-out	156	485	145	145	145	145
Total Expenditures	<u>\$314,848</u>	<u>\$330,598</u>	<u>\$340,479</u>	<u>\$352,230</u>	<u>\$363,573</u>	<u>\$373,364</u>
Expenditure Savings	-	(3,251)	(3,353)	(3,474)	(3,593)	(3,696)
Yearly Balance	<u>\$4,784</u>	<u>(\$13,693)</u>	<u>(\$13,311)</u>	<u>(\$18,945)</u>	<u>(\$21,113)</u>	<u>(\$20,460)</u>
Prior Year Cancelled Encumbrances	1,496	-	-	-	-	-
Previous Year Carryover Balance	10,220	16,500	2,807	(10,504)	(29,449)	(50,562)
Non-GAAP Carryover Balance	<u>\$16,500</u>	<u>\$2,807</u>	<u>(\$10,504)</u>	<u>(\$29,449)</u>	<u>(\$50,562)</u>	<u>(\$71,022)</u>

Table V – November 2004 General Fund Forecast 2003-2008

(\$ in Thousands)	2003 Actual	2004 Estimate	2005 Forecast	2006 Forecast	2007 Forecast	2008 Forecast
Resources						
Operating Revenues	\$313,669	\$313,580	\$316,005	\$323,777	\$332,667	\$342,819
Transfers-in	5,963	1,000	3,059	-	-	-
Total Resources	<u>\$319,632</u>	<u>\$314,580</u>	<u>\$319,064</u>	<u>\$323,777</u>	<u>\$332,667</u>	<u>\$342,819</u>
Expenditures						
Operating Expenditures	\$314,692	\$330,844	\$340,334	\$332,168	\$336,805	\$346,054
Transfers-out	156	485	145	-	-	-
Permanent expenditure and transfer reductions in 2005			16,169	16,492	16,987	17,497
Permanent expenditure and transfer reductions in 2006				5,173	5,328	5,488
Permanent expenditure and transfer reductions in 2007					830	855
Total Expenditures	<u>\$314,848</u>	<u>\$331,329</u>	<u>324,310</u>	<u>326,995</u>	<u>335,975</u>	<u>346,054</u>
Expenditure Savings	-	(2,304)	(3,191)	(3,218)	(3,308)	(3,409)
Yearly Balance	<u>\$4,784</u>	<u>(\$14,445)</u>	<u>(\$2,055)</u>	<u>(\$0)</u>	<u>\$0</u>	<u>\$174</u>
Prior Year Cancelled Encumbrances	1,496	2,000	-	-	-	-
Previous Year Carryover Balance	10,220	16,500	4,055	2,000	2,000	2,000
Non-GAAP Carryover Balance	<u>\$16,500</u>	<u>\$4,055</u>	<u>\$2,000</u>	<u>\$2,000</u>	<u>\$2,000</u>	<u>\$2,174</u>

Structural Imbalance

The June 2004 multi-year forecast in Table IV on the proceeding page shows an operating deficit each year during the forecast period (2005-2008). Furthermore, the size of the annual deficit increases each year. With increasing annual deficits, the General Fund is structurally out of balance with revenues growing at a slower pace than expenditures. Revenues were projected to grow on average 3.0% while the average expenditure growth rate for the same period was 3.2%. This structural imbalance resulted in a projected accumulated General Fund deficit of \$71.0 million by the end of 2008.

The City has relied on carryover to compensate for the structural imbalance in the General Fund for several years. Carryover balances will not be sufficient in 2005/2006 to balance the budget. As shown in Graph I, General Fund carryover balances have decreased since 1999 and are no longer sufficient to address annual operating deficits.

Graph I – General Fund Carryover Balance Trends

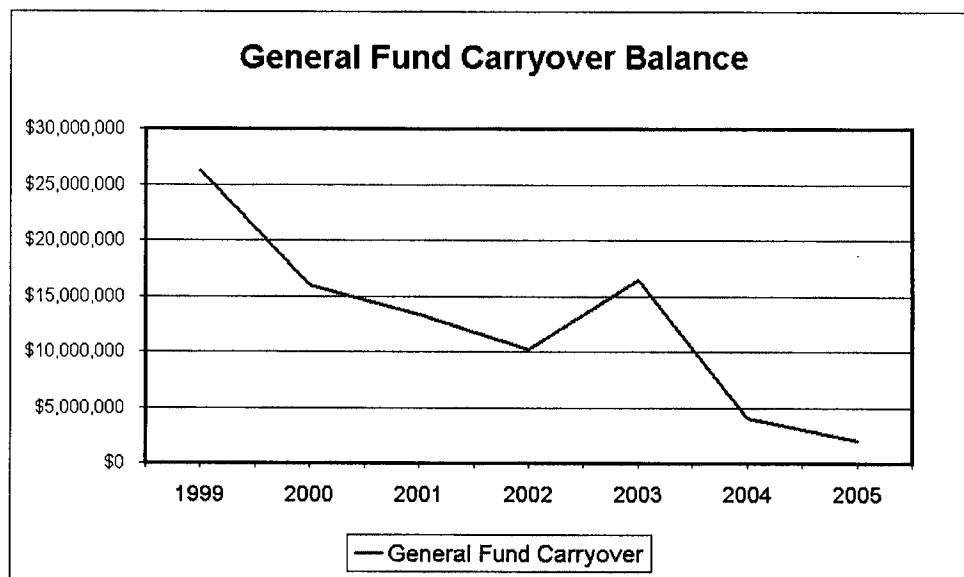
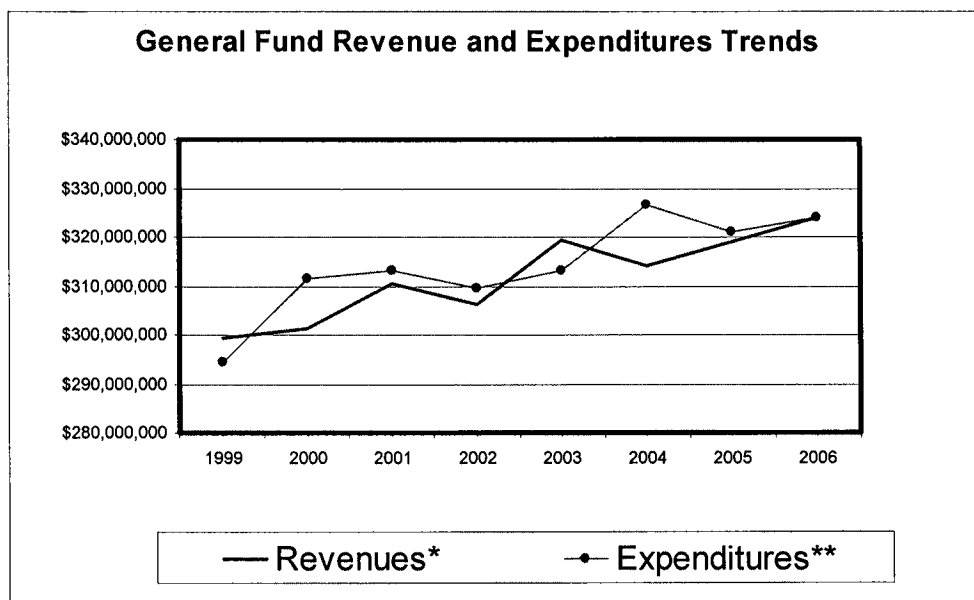


Table V on the proceeding page shows the multi-year General Fund forecast (2005-2008) incorporating the revised revenue and expenditure estimates. Revenues are expected to grow by an average 2.8% for the forecast period and average expenditures are expected to grow 2.2%. The Recommended 2005/2006 General Fund Budget shows a structural balance and provides for a modest carryover balance each year through the forecast period.

As shown in Graph II, the structural imbalance is eliminated by 2005/2006 biennium reflecting the recommended budget. Note that the revenue and expenditure lines intersect in 2006.

Graph II – General Fund Revenue and Expenditure Trends



NOTES: * Includes Net Transfers In

** Includes Net Transfers Out, Cancelled Encumbrances, Expenditure Savings

Trends are based on actual resources and expenditures for 1999-2003 and estimates for 2004-2006.

Biennial Budget Forecast Changes (See Tables IV and V)

For 2004, total estimated General Fund revenues have increased by about \$926,000 since June. Unfortunately, income tax revenue, which is a major component General Fund, is now expected to be about \$4.2 million less than the June estimate. The small total General Fund revenue increase over the June estimate is primarily due to an increase in estate tax revenue, which by its nature is a one-time resource. Expenditures have increased by about \$1.7 million since the June forecast and the increase would have been higher had expenditure controls not been implemented. Prior year cancelled encumbrances are included for \$2 million which reflects our aggressive action in this area. The result is an increase in carryover of about \$1.2 million for a total of \$4.1 million in 2004.

Because of 2004 income tax performance, the 2005 and 2006 growth rates for income tax have been decreased to 2.2% and 3.4%, respectively. This compares to the June 2004 forecast of a 3.4% increase in 2005 and a 4.5% increase in 2006. Factoring in the lower 2004 income tax revenue base and the slower growth rate for 2005, the income tax revenue estimate for 2005 is \$6.6 million less than forecasted in June 2004. Other net revenue decreases before new revenue sources total \$360,000. This is offset in part by \$2.2 million in new revenue enhancements. The total General Fund revenue estimated for 2005 is \$316 million. The total General Fund revenue estimate for 2006 of \$323.8 million includes the estimated income tax increase of \$6.7 million and other revenue increases of \$1.1 million.

The June 2004 forecast assumed for 2005 and 2006 that current labor contracts would be funded and that future contracts and non-represented staff salary increases would be 3% annually. The revised multi-year forecast in Table V assumes that salary increases are limited to 2% in each year of the biennium for represented employees. Professional, technical, and managerial employees (including CODE) are budgeted for no general salary increase (0%) increase in 2005 and 2% in 2006. Combined with

expenditure reductions across every City department, the recommended 2005 General Fund expenditure level reflects a decrease of \$16.2 million from the original forecast. The 2006 budget requires an additional \$5.2 million in reductions. The necessary expenditure reductions are prorated across all City General Fund departments and specific reductions will have to be identified during the 2006 Budget Update process.

Table VI provides a summary of the major changes in assumptions between the June and November multi-year General Fund forecasts.

Table VI – Forecast Assumptions

Assumption	2004	2005	2006
Income Tax Growth			
June	3.2%	3.4%	4.5%
November	1.0%	2.2%	3.4%
Personnel Increases (Notwithstanding existing labor contracts)			
June	3%	3%	3%
November (represented staff / non-represented staff)	3%	2% / 0%	2% / 0%
Non-Personnel Increases			
June	0.0%	2.5%	2.8%
November	0.0%	2.5%	2.8%
Expenditure Reductions			
June	\$3.3 Million	\$10.5 Million	\$29.4 Million
November	\$2.3 Million	\$16.2 Million	\$21.7 Million

Cautions for the Multi-Year Forecast

With expenditure reductions in 2005 in the amount \$16.2 million and assumed additional reductions of \$5.2 million in 2006, the General Fund budget is balanced in the biennium with a \$2 million carryover in each year. This carryover amount provides total reserves of about 7% of annual General Fund revenues, which is less than the generally accepted fund balance target standard of 10% of revenues. Any personnel services increases (e.g., labor contracts) that exceed the 2% assumption for represented staff and that exceed 0% for non-represented staff will cause the General Fund to be out of balance and will require additional expenditure reductions or revenue increases in the General Fund.

Capital Budget

The Capital Budget provides funding for the improvement or purchase of City assets. For more than 15 years, the City has made significant progress in addressing its infrastructure needs through the Capital Budget. The City has dedicated more than one-half of the General Capital Budget to infrastructure projects such as street repair and facility improvements. In addition, the City has used utility fees and charges for Restricted Fund Capital Budget infrastructure projects such as infrastructure projects replacement of water and sewer lines and facilities.

Table VII – Recommended 2005/2006 Capital Budget

	2004	2005	%	2006	%
(\$ in Millions)	Approved Budget	Recommended Budget	Change From 2004	Recommended Budget	Change From 2005
General Capital	\$79.3	\$64.4	-18.8%	\$63.9	-0.8%
Restricted Funds Capital	160.7	114.2	-28.9%	143.4	25.6%
Special Revenue Capital	1.2	1.5	25.0%	1.2	-20.0%
Federal/State Capital Matching Funds	<u>17.7</u>	<u>13.4</u>	<u>-24.3%</u>	<u>17.0</u>	<u>26.9%</u>
Total All Funds Capital Budget	\$258.9	\$193.5	-25.3%	\$225.5	16.5%

As shown in Table VII, the recommended 2005/2006 Biennial All Funds Capital Budget totals \$419.0 million: \$193.5 million for 2005 and \$225.5 million for 2006. Included are budgets for General Capital projects, Restricted Funds Capital projects, Special Revenue Capital projects, and projects supported with Federal and State Capital Grant Matching Funds.

The following describes the recommended expenditure highlights in the General Capital Budget.

1. **Street Rehabilitation: \$25.0 Million for 200 Lane Miles** – The recommended General Capital Budget includes \$12.3 million in 2005 and \$12.7 million in 2006 for the Street Rehabilitation Program. This investment meets the City Council directive to rehabilitate at least 100 lane miles per year. A total of \$79.6 million is included in the 2005-2010 General Capital plan for this initiative.

Major street reconstruction projects, in addition to Street Rehabilitation, total \$7.6 million in 2005 and \$6.0 million in 2006. In the biennium, reconstruction projects are planned for sections of the following streets: Waldvogel Viaduct, Eighth Street Viaduct, Central Avenue, and Martin Luther King Drive. A total of \$38.5 million is included in the 2005-2010 General Capital plan for street reconstruction projects.

In addition to the recommended street rehabilitation and street improvement projects, the All Funds Biennial Capital Budget includes \$11.6 million in 2005 and \$15.2 million in 2006 from State and Federal transportation matching funds. Recommended matching fund projects include improvements to the following streets: Dixmyth Avenue, River Road (Mt. Echo to Illinois), Columbia Parkway, Gilbert Avenue, Hamilton Avenue, Sixth Street Expressway, M.L. King Drive, and Reading Road.

2. **Renovation of Existing City Facilities: \$23.1 Million** – A total of \$12.5 million in 2005 and \$10.6 million in 2006 is recommended for renovation of existing City-owned facilities. The biennial recommendation includes \$7.8 million for renovation of Recreation facilities, \$6.7 million for Park facilities, and \$377,000 for Health facilities. Upgrades to other City-owned facilities are

recommended at a funding level of \$1.9 million in 2005 and \$1.6 million in 2006; these renovations would include the addition of female facilities to two firehouses over the biennium and upgrading the female facilities at one firehouse in 2006. The recommended Capital Budget also includes \$4 million in the biennium for renovation of Fountain Square and the Fountain Square Garage. To address employee health and safety concerns in City workplaces according to OSHA and EPA code requirements, \$700,000 is included in this recommended Capital Budget. Over the six-year plan, a total of \$73.2 million is recommended for renovation of existing City facilities.

3. **Information Technology and Equipment: \$17.6 Million** – To continue the City’s commitment to providing employees with the necessary tools to operate efficiently and improve the delivery of services to citizens, \$9.7 million in 2005 and \$7.9 million in 2006 is recommended for information technology and equipment projects. This recommendation includes a total of \$12.0 million over the biennium to replace obsolete motorized equipment; i.e., equipment that has exceeded the established standards for maximum mileage, age, or maintenance costs. Additionally, \$500,000 is recommended in 2005 to purchase equipment in the final phase of the Contact Service Request Management project, which will allow service requests from citizens to be managed centrally across all City departments. In 2005, \$130,800 is also recommended to purchase Digital Mobile Video Recorders (MVRs) to equip marked police vehicles with Digital Eyewitness Systems including a transmitter/microphone, a rotating camera, and docking station. Over the six-year plan, \$50.1 million is recommended for information technology and equipment initiatives.
4. **Market Rate Housing: \$9.9 Million** – The recommendation for the development of market rate housing in Cincinnati totals \$4.9 million in 2005 and \$5.0 million in 2006. Over the six-year plan, \$22.1 million is recommended for this initiative. These funds will be used for site improvements and infrastructure development at residential construction locations.
5. **New Replacement Fire Stations: \$3.6 Million** – The General Capital Budget recommendation includes \$1.6 million in 2005 and \$2.0 million in 2006 to construct and replace one fire station in each year: North Avondale in 2005 and Pleasant Ridge in 2006. Over the six-year plan, \$13.6 million is included for the replacement of existing fire stations.
6. **Riverfront Utilities: \$2.4 Million** – The recommended General Capital Budget supports “The Banks” project by providing \$2.4 million over the biennium for the installation of public utilities for the Central Riverfront Street Grid. This \$2.4 million represents the City’s final amount for the Riverfront Utilities of a \$6.4 million total commitment.
7. **Cinergy Center Renovation and Expansion Project: \$2.0 Million** – To continue the City’s commitment to the renovation and expansion of the Cinergy Center, the recommended General Capital Budget includes \$1.0 million in each year of the biennium (\$6.0 million in the six-year plan) for the project.
8. **Kennedy Connector: \$5.6 Million** – The General Capital Budget recommendation includes \$800,000 in 2005 and \$4.8 million in 2006 for the Kennedy Connector project, which supports the design and construction of a new street to connect the intersection of Duck Creek Road and Kennedy Avenue with Ridge Avenue. An additional \$1.0 million is recommended in 2007. Cost estimates for this project total \$19.3 million, including construction, land acquisition, and related costs. Additional funding sources will have to be identified to fully fund the project. A total of \$325,000 was appropriated for this project in 2003 to fund initial engineering work. Based on the latest project schedule, engineering work will continue in 2005 and 2006, property negotiations/acquisition will occur in 2006 and 2007, with construction beginning in 2007.

9. **Redesign of Reeves Golf Course: \$1.7 Million** – To improve Lunken Airport’s ability to provide convenient and efficient transportation for its corporate clients, the recommended Capital Budget includes \$1.7 million in 2005 for improvements related to the development of a new aircraft hangar for the Procter and Gamble Company. Project resources would be dedicated to reconfiguring portions of Reeves Golf Course, the driving range, and bike path that are adjacent to Lunken Airport to make room for the new hangar. The Procter and Gamble Company has committed to contributing \$1.3 million to the estimated total project cost of \$3.0 million; however, the full scope of the project is still under review and the total project cost may be modified.
10. **Support for Community Facilities Improvements: \$1.2 Million** – Continuation of the City’s support of Music Hall and the Art Museum is included in the recommended biennial Capital Budget. A total of \$1.2 million (\$600,000 in each year) for these historic buildings would support exterior improvements and repair, waterproofing, improved handicap accessibility, security upgrades, HVAC enhancements, and other improvements.
11. **New Fire Burn Training Building and Equipment: \$1.5 Million** – The existing training burn building used by the Fire Department is no longer functional or safe and the building has been condemned. In 2005, \$900,000 is recommended for the development of a new Fire Department burn building. Additionally, \$300,000 is recommended in both 2005 and 2006 (\$1.8 million in the six-year plan) for the purchase of training and safety equipment to support recommendations related to the “Line of Duty Death Report.”
12. **Security Upgrades at City Facilities: \$540,000** – In 2005, \$540,000 is recommended for security upgrades at City facilities. Back-up generators would be purchased at critical Police, Fire, and Public Services facilities. Security improvements would also be made in City Council Chambers.
13. **Regional Emergency Operation Center Build-Out: \$400,000** – The recommended General Capital Budget in 2005 includes \$400,000 to provide the City’s share of the build-out costs for the Regional Emergency Operation Center (EOC) at the new Radcliff Building. The Hamilton County Commissioners have committed \$488,400 for the build-out effort as well. Development of the EOC is expected to leverage \$1.2 million in 2003/2004 Homeland Security resources for technical equipment at the center.

The following describes the recommended expenditures highlighted in the Restricted Funds and Matching Funds:

1. **Eastern/Delta Sewer Separation: \$29.4 Million** – The recommended biennial budget includes \$14.5 million in 2005 and \$14.9 million in 2006 for the installation of new sewer lines from Eastern and Stanley Avenues to the Little Miami Wastewater Treatment Plant in the East End. This project will eliminate several combined sewer overflow areas and provide high water/dry weather protection. The MSD Capital Improvement Fund supports this project. The final MSD proposed Capital Budget will be submitted to the Hamilton County Board of Commissioners in mid-November.
2. **Metropolitan Sewer District (MSD) Water-in-Basement Prevention Program: \$15.0 Million** – In each year of the biennium, \$7.5 million is recommended to alleviate chronically affected water-in-basement problems countywide. A total of \$37.5 million is recommended over the six-year capital improvement plan (2005-2010) for this project, which is supported in the MSD Capital Improvement Fund. The final MSD proposed Capital Budget will be submitted to the Hamilton County Board of Commissioners in mid-November.

3. **Metropolitan Sewer District Global Consent Decree: \$158.6 Million** – The recommended Capital Budget for MSD is \$63.1 million in 2005 and \$95.5 million in 2006. The increase of \$32.4 million from 2005 to 2006 is related to significant sewer infrastructure improvements as mandated by the Global Consent Decree.
4. **Greater Cincinnati Water Works Capital Improvements: \$93.9 Million** – The recommendation for capital improvements for Water Works is \$48.6 million in 2005 and \$45.3 million in 2006. In both years a total of \$28.8 million is recommended for the replacement of water mains, \$18.5 million is recommended for the replacement of meters, and \$12.9 million is recommended to replace water mains when street improvements made by other jurisdictions affect an existing water main. The recommended Capital Budget for Water Works is significantly less than previous years due to lower than expected revenue resulting from the wet, cool summers over the last two years.
5. **Improvements for Parking Facilities: \$1.3 Million** – Funding for structural maintenance and repairs and new equipment at parking facilities is recommended for a total of \$1.3 million over the biennium (\$510,000 in 2005 and \$835,000 in 2006). The schedule for repair and maintenance includes repair of the deck and expansion joints at the Garfield Garage, blacktop repair at the 3rd and Central parking lot, and lighting improvements at the Elm Street, Town Center, and 7th Street Garages. New equipment that allows for automated payment using credit cards is also included in the recommendation for Parking facilities.
6. **Lunken Airport Improvements: \$1.0 Million** – Over the biennium, \$625,000 (\$355,000 in 2005 and \$270,000 in 2006) is recommended for facility and infrastructure improvements at Lunken Airport and \$175,000 (\$125,000 in 2005 and \$50,000 in 2006) is recommended for the “Noise Monitoring and Abatement” project. A total of \$250,000 (\$100,000 in 2005 and \$150,000 in 2006) is recommended as the City’s local match for Federal Aviation Administration (FAA) projects. Grant funding from the FAA is expected to be \$1.8 million in each year of the biennium.
7. **Special Revenue Capital: \$2.7 Million** - The recommendation for the Special Housing Permanent Improvement Fund (SHPIF) is \$1.5 and \$1.2 million in 2005 and 2006, respectively. Projects in this fund, which are supported from net rental income and tax increment payments, will promote housing development downtown.
8. **Federal/State Capital Grant Funds: \$30.4 Million** – The City receives federal/state matching funds to improve the City's roads and bridges. Additionally, funds are received annually from the Federal Aviation Administration (FAA) for improvements to Lunken Airport and Blue Ash Airport. Federal and State matching Capital Funds total \$13.4 and \$17.0 million in 2005 and 2006, respectively.

Consolidated Plan Budget

The Consolidated Plan is a five-year plan for the period from 2005 to 2009 and is required for the receipt of grant funding from the U.S. Department of Housing and Urban Development (HUD). The Recommended 2005 Consolidated Plan Budget is the Action Plan component of the five-year plan. It includes the four entitlement grants received by the City: Community Development Block Grant (CDBG), Home Investment Partnerships Grant (HOME), Emergency Shelter Grant (ESG), and Housing Opportunities for Persons with AIDS.

Table VIII – Recommended 2005/2006 Consolidated Plan Budget

<i>(\$ in Millions)</i>	2004 Approved Budget	2004 Reconciliation Budget	2005 Recommended Budget	2006 Recommended Budget
CDBG	\$19.8	\$19.7	\$18.4	\$18.8
HOME	\$5.2	\$5.8	\$4.9	\$4.9
ESG	\$0.6	\$0.6	\$0.6	\$0.6
HOPWA	<u>\$0.5</u>	<u>\$0.5</u>	<u>\$0.6</u>	<u>\$0.6</u>
Total Consolidated Plan Budget	\$26.1	\$26.6	\$24.5	\$24.9

Recommended program allocations in this budget reflect the needs of those neighborhoods where these grant resources can most effectively leverage private investment, as identified in the Recommended Consolidated Plan for 2005-2009. Our focus on Neighborhood Revitalization Strategy Areas (NRSA) is continued through this budget. In 2004, HUD approved the designation of NRSA's in both Walnut Hills and College Hill. For example, the 2005/2006 Recommended Budget includes a total of \$1.0 million in Consolidated Plan funding for the Blueprint for Success, a new pilot program based on the Youth Build model, to assist ex-offenders and at-risk young adults ages 16-30 years from the Empowerment Zone and other approved NRSAs in obtaining their high school diploma (or GED) as well as marketable construction skills.

The City offers many opportunities for citizen input and participation in budget development. Several advisory bodies contributed to the recommendations in this budget. Funding requests for housing and economic development programs were reviewed by the Community Development Advisory Board (CDAB). The Recommended 2005 Consolidated Plan Budget is consistent with the recommendations of the CDAB. Funding requests for neighborhood business district improvements were reviewed and recommended by the Cincinnati Neighborhood Business Districts United (CNBDU). Funding requests for human services and human service facility renovations were reviewed and recommended by the Human Services Advisory Committee. Funding requests for homeless services were reviewed and recommended through the Continuum of Care process participants. Funding requests for Housing Opportunities for Persons with AIDS (HOPWA) programs were reviewed by the HOPWA Advisory Committee. The Community Development Advisory Board held a public hearing on September 9, 2004 to receive public comment on the preliminary funding recommendations of the various advisory boards.

Table IX- 2005/2006 Consolidated Plan Budget by Objective and Major Expenditures.

		2005		2006	
Major Expenditures by Category	%Total	TOTAL	%Total	TOTAL	
Housing Objectives					
Homeownership Housing Development Total		\$6,299,638		\$6,930,933	
Rental Housing Development		\$0		\$0	
Rental Housing Development Total		\$2,214,545		\$2,502,076	
Homeownership Supportive Services		\$0		\$0	
Homeownership Supportive Services Total		\$269,714		\$269,714	
Renters Supportive Services Total		\$411,000		\$445,000	
Fair Housing Total		\$205,000		\$205,000	
<i>TOTAL HOUSING DEVELOPMENT</i>	38.4%	\$9,399,897	41.6%	\$10,352,723	
Economic Development					
Commercial and Industrial Development Total		\$895,000		\$1,120,000	
Industrial Site Redevelopment/SPUR Total		\$700,000		\$500,000	
Promote Business Development Opportunities		\$0		\$0	
Business Development Opportunities Total		\$2,376,000		\$2,376,000	
Job Training, Placement Services, and Employment Opportunities		\$0		\$0	
Job Training and Placement Total		\$2,065,780		\$2,215,467	
<i>TOTAL ECONOMIC DEVELOPMENT</i>	24.7%	\$6,036,780	25.0%	\$6,211,467	
Quality of Life					
Slum & Blight Elimination Total		\$1,410,000		\$1,470,540	
Youth Development Total		\$828,732		\$828,732	
Service Facility Improvements Total		\$868,660		\$413,607	
Citizen Safety Total		\$100,000		\$100,000	
<i>TOTAL QUALITY OF LIFE</i>	13.1%	\$3,207,392	11.3%	\$2,812,879	
Homeless Housing					
Homeless Shelters & Transitional Housing Total		\$626,571		\$60,000	
<i>TOTAL HOMELESS HOUSING</i>	2.6%	\$626,571	0.2%	\$656,391	
Special Populations Housing					
Operating Support for HIV/AIDS Housing Total		\$80,250		\$0	
Supportive Services for Persons with HIV/AIDS Total		\$332,235		\$0	
Housing Assistance for Persons with HIV/AIDS Total		\$173,190		\$0	
HOPWA Reserve		\$30,275		\$0	
<i>TOTAL SPECIAL POPULATIONS HOUSING</i>	2.5%	\$615,950	2.2%	\$550,000	
Planning, Administration & Debt Service					
<i>TOTAL PLANNING, ADMIN. & DEBT SERVICE</i>	18.7%	\$4,578,313	17.2%	\$4,288,930	
TOTALS BY FUND	100.0%	\$24,464,903	97.5%	\$24,872,390	

TAXES & FEES

The property tax rate is set at 4.98 mills in 2005 down from 5.0 mills in 2004. This reduction is consistent with the City Council policy to roll back the property tax millage to maintain property tax revenues at the 2001 level. No other tax changes are included.

The Recommended 2005/2006 Operating Budget includes fee increases within the Buildings and Inspections Department (B&I) related to permits and inspections. Many have not been increased since 1979 and will be updated to reflect prevailing construction costs and to be comparable with other jurisdictions. Additionally, the recommended budget includes a Landlord Registration fee to provide the resources to operate the Landlord Registration program and to help offset the cost of the housing inspection function. The estimated increase in 2005 General Fund revenues for these increases are shown in Table X.

Table X – Buildings and Inspections Fee and Permit Revenue Initiatives

Per Square Foot Permit Fee	\$230,870
Landlord Registration Fee	\$875,000
Re-inspection Fee	\$424,200
Other B&I Fee Increases	\$180,810

Parking violation fines are increased in 2005 to provide an additional \$573,250 in revenue. These include the following:

- the current \$14 parking violation fine is increased to \$25;
- the current \$36 parking violation fine is increased to \$40; and
- the current \$56 parking violation fine (handicap violations) is increased to \$250, which is the state allowed maximum.

The budget assumes implementation of photo traffic enforcement for red light violations at selected intersections. The City Council will be consulted as to the camera locations of this traffic and pedestrian safety improvement initiative. Assuming full implementation in June 2005, the estimated revenue increase for this initiative is \$502,500.

As approved by the Hamilton County Board of Commissioners in January 2004, the Metropolitan Sewer District rates increase 8.6% in 2005 and an additional 7.9% increase in 2006. These increases are necessary to address the requirements of the Global Consent Decree approved by the County and City Council.

The Greater Cincinnati Water Works (GCWW) budget includes a 5% rate increase in 2005 and an additional 7.5% rate increase in 2006 based on declining revenues and increasing costs. Revenues have been less than anticipated in recent years due to decreasing per-household consumption, the widespread use of low-flow fixtures in new construction and renovations, and consecutive wet summers. Additionally, the rate increase is necessary to address increasing costs for utilities, employee benefits, fuel, and transportation costs.

Recognizing a 10-year trend in decreasing water consumption within the City and Hamilton County, GCWW has pursued an expansion strategy within the Greater Cincinnati suburbs to counter the impact of decreasing consumption within the City and County, to spread operating and infrastructure costs over a larger service base, and to provide an opportunity for the outer suburbs to receive quality water service at

a lower cost. Recent expansions have included the City of Mason, Butler County, and Northern Kentucky. Without these expansion efforts, rate increases of 10% in 2005 and 6% in 2006 would be required, according to GCWW.

STAFFING

The City will reduce the overall number of funded positions in 2005 and in 2006 by 161.1 FTE and 17.0 FTE, respectively. Of the 2005 FTE reductions, 76 FTE are filled. As shown in Table XI, the total number of full-time equivalents (FTE) is recommended to decline from 6,487.9 budgeted in 2004 to 6,326.8 in 2005. There is a reduction of net 108.4 FTE in the General Fund and a net 52.7 FTE decrease in the Restricted Funds. An additional 17 FTE are reduced in 2006 within Restricted Funds.

Table XI - 2005/2006 City Staffing Plan

	2004	2005	Change	2006	Change
(in Full Time Equivalents, FTE)	Approved Budget	Recommended Budget	From 2004	Recommended Budget	From 2005
General Fund	3,814.5	3,706.1	(108.4)	3,706.1	-
Restricted Funds	<u>2,673.4</u>	<u>2,620.7</u>	<u>(52.7)</u>	<u>2,603.7</u>	<u>(17.0)</u>
Total City Staffing	6,487.9	6,326.8	(161.1)	6,309.8	(17.0)

The recommended change in non-public safety FTE is more dramatic. As shown in Table XII, from 2004 to 2005 the number of non-public safety FTE declines by 176.1 in all funds.

Table XII – 2004 to 2005 All Funds Public Safety FTE / Non-Public Safety FTE

	2004	2005	FTE Change
(in Full Time Equivalents, FTE)	Approved Budget	Recommended Budget	From 2004 Budget
Public Safety FTE	1,847.0	1,862.0	15.0
Non-Public Safety FTE	<u>4,640.9</u>	<u>4,464.8</u>	<u>-176.1</u>
Total All Fund FTE	6,487.9	6,326.8	-161.1

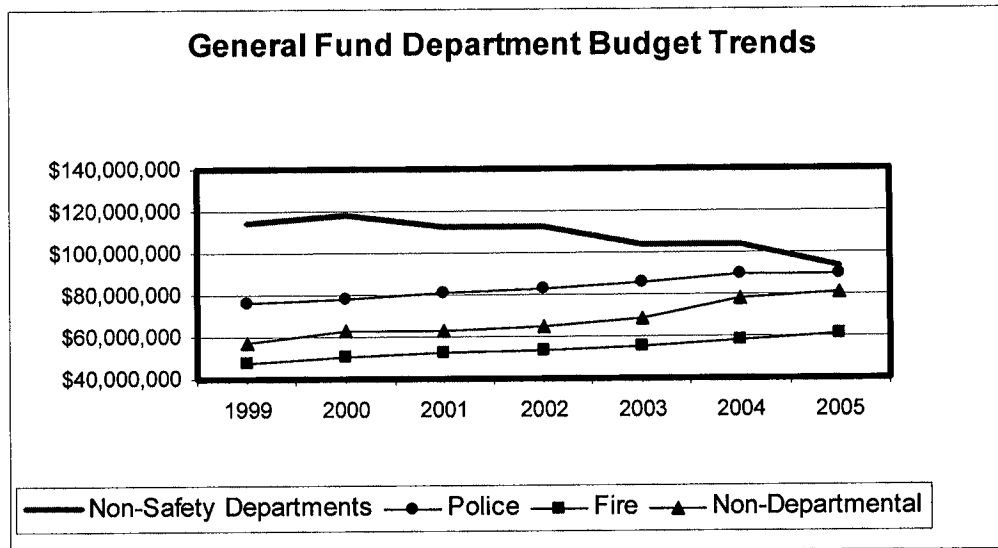
The decrease in non-public safety FTE continues a trend since 2000 of reducing non-public safety FTE while increasing sworn public safety staff within the Police Department. As shown in Table XIII, 537 non-public safety FTE have been eliminated since 2000, while the number of sworn FTE has increased by 75 during the same period.

Table XIII - General Fund FTE Change 2000-2005

<i>(in Full Time Equivalents, FTE)</i>	2000 Approved Budget	2005 Recommended Budget	FTE Change From 2000 Budget
Public Safety FTE	1,787.0	1,862.0	75.0
Non-Public Safety FTE	<u>2,381.1</u>	<u>1,844.1</u>	<u>-537.0</u>
Total General Fund FTE	4,168.1	3,706.1	-462.0

Consistent with the decrease in non-public safety FTE and the increase in public safety FTE, Graph III provides an expenditure history from 1999 – 2005. Note that non-public safety departmental budgets have declined and police, fire, and non-departmental budgets have increased (non-departmental budgets include such items as pension, health care, and the annual payment to the Cincinnati Public Schools).

Graph III – General Fund Department Budget Trends 1999 - 2005




CONCLUSION

This budget is a radical departure from “budgets as usual”. It includes structural changes in City operations that are difficult and painful, but necessary, to make. We are all challenged to put the City on the path of future financial sustainability while providing core services that are valued by our citizens. I am ready to work with you and the City Council to make the tough decisions in finalizing the 2005/ 2006 biennial budget.

I want to extend a special thank to the departments in helping me craft this budget. Additionally, I wish to recognize the extraordinary efforts of the Finance Department to prepare the budget documents presented today. We are fortunate to have such a highly talented and dedicated staff serving the city of Cincinnati.

Respectively submitted,



Valerie A. Lemme
City Manager